

Message Text

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PAGE 01 HONG K 15702 210955Z
ACTION EB-08

INFO OCT-01 EUR-12 EA-10 IO-13 ISO-00 AGRE-00 CIAE-00
COME-00 INR-07 LAB-04 NSAE-00 SP-02 STR-05
TRSE-00 FRB-03 OMB-01 ITC-01 L-03 SS-15 NSC-05
/090 W

-----114037 211001Z /15

P 210923Z DEC 77
FM AMCONSUL HONG KONG
TO SECSTATE WASHDC PRIORITY 8275
INFO AMEMBASSY BRUSSELS PRIORITY
USMISSION GENEVA PRIORITY
AMEMBASSY LONDON PRIORITY

C O N F I D E N T I A L HONG KONG 15702

STATE FOR EA/PRCM AND EB-FTD
STATE PASS STR FOR MIKE SMITH
GENEVA FOR PHELAN
BRUSSELS FOR USEC

E.O. 11652: GDS
TAGS: ETRD, HK, EEC
SUBJECT: US-HONG KONG BILATERAL AGREEMENT

1. WE HAVE BEEN TOLD BY HONG KONG TRADE, INDUSTRY AND
CUSTOMS DEPARTMENT (TICD) OFFICIALS OF THE EXISTENCE OF
A SIDE LETTER TO THE JULY MEMORANDUM OF UNDERSTANDING ON
TEXTILES WHICH AFFORDS THE U.S. THE RIGHT TO REOPEN NEGOTIA-
TIONS IN LIGHT OF THE TERMS OF THE HK-EEC AGREEMENT ON
TEXTILES. ACCORDING TO TICD, U.S. HAS INFORMALLY NOTIFIED
HK GENEVA REPRESENTATIVE, PETER TSAO, THAT WE INTEND TO
EXERCISE THAT RIGHT AND THAT MIKE SMITH ACCOMPANIED BY
OTHER MEMBERS OF A U.S. TEXTILE NEGOTIATING TEAM PLANS TO
BE IN HONG KONG FOR THAT PURPOSE ON JANUARY 16.

2. CONGEN WOULD APPRECIATE TEXT OF REPORTED SIDE
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LETTER AND CONFIRMATION OF U.S. PLANS TO SEND
NEGOTIATING TEAM HERE JANUARY 16. WE ALSO WOULD
APPRECIATE KNOWING OUR INTENDED AGENDA IN THE
EVENT CONSULTATIONS ARE INDEEN PLANNED.

3. TICD OFFICIALS UNDERSTOOD THAT U.S. HAD ASKED
FOR CONSULTATIONS ON EA ITEMS (E.G., CATEGORY 120)

IN US-HK AGREEMENT AND TO DISCUSS "EQUITY PROBLEMS" IN NEW HK-EEC AGREEMENT. TCD PRESUMES THESE PROBLEMS WILL INCLUDE: (A) FLEXIBILITY PROVISIONS; (B) "TRIGGER MECHANISM" FOR ASSIGNING SPECIFIC LIMITS TO CATEGORIES NOW IN BASKET; (C) CUTBACKS ON SPECIFIC SENSITIVE CATEGORIES. CONCERNING DATE FOR CONSULTATIONS, HK CHIEF NEGOTIATOR MILLS WOULD PREFER MEETING U.S. TEAM EITHER ON JANUARY 30 OR FEBRUARY 13, IN ORDER TO AVOID SCHEDULE CONFLICTS AND THE LUNAR NEW YEAR INTERRUPTION. BUT MILLS SAID THAT, ONCE HE HAD RECEIVED AN OFFICIAL USG REQUEST FOR CONSULTATIONS, HE WOULD MEET U.S. TEAM AT THEIR CONVENIENCE.

4. IN CONSIDERING THE QUESTION OF REVISING US-HK AGREEMENT, ADDRESSEES SHOULD BE AWARE THAT WHILE HKG OFFICIALS PRIVATELY AND, MORE RECENTLY, PUBLICLY EXPRESS RELATIVE SATISFACTION WITH THEIR NEW EEC BILATERAL, THE LOCAL PRESS AND PUBLIC PERCEIVE IT AS A BLOW TO HONG KONG'S ECONOMY AND AS A SIGN THAT THE THREATENING WAVE OF FOREIGN PROTECTIONISM IS BEGINNING TO CRASH DOWN ON THE VULNERABLE COLONY. IN THESE CIRCUMSTANCES, WE BELIEVE THAT ANY ATTEMPT NOW TO MODIFY SIGNIFICANTLY THE EXISTING US-HK AGREEMENT WOULD CAUSE PROFOUND PSYCHOLOGICAL SHOCK HERE AND SUBJECT US TO STRONG CRITICISM FOR TAKING ADVANTAGE OF CONFIDENTIAL

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HK'S PLIGHT. WE ACCORDINGLY BELIEVE IT PREFERABLE THAT ANY CONSULTATIONS BE POSTPONED AT LEAST UNTIL MID-1978 AT WHICH TIME WE SHOULD BE ABLE TO HAVE A BETTER APPRECIATION OF THE EFFECT OF THE U.S. AND EEC BILATERALS ON HK'S ECONOMY AND WHEN HOPEFULLY HK'S FEARS FOR ITS TEXTILE INDUSTRY WILL HAVE SUBSIDED.

5. IF WE DO, HOWEVER, OPEN CONSULTATIONS IN HK NEXT MONTH, TCD OFFICIALS HAVE ASKED THAT WE COORDINATE WITH THEM TIMING AND SUBSTANCE OF ANY PUBLIC ANNOUNCEMENT. WE WOULD WELCOME DEPARTMENT'S GUIDANCE ON THE CONTENT AND TIMING OF ANY PUBLIC ANNOUNCEMENT OF THESE MEETINGS.
SHOESMITH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS
Control Number: n/a
Copy: SINGLE
Sent Date: 21-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977HONGK15702
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770475-0784
Format: TEL
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771232/aaaabavu.tel
Line Count: 109
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 3c3016ff-c188-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 11-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 161204
Secure: OPEN
Status: NATIVE
Subject: US-HONG KONG BILATERAL AGREEMENT
TAGS: ETRD, HK, EEC
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/3c3016ff-c188-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009